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C O N F I D E N T I A L SECTION 01 OF 03 DJIBOUTI 000111

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DEPT FOR OES ATTN: FERNANDO ECHAVARRIA; DEPT ALSO  
FOR JEFFREY HAENI;  
DEPT PASS TO USAID FOR GORDON WEYNAND; DOE FOR  
FRANCIS HODSOLL

E.O. 12958: DECL: 01/26/2014

TAGS: [ECON](#) [EFIN](#) [ENRG](#) [SENV](#) [TRGY](#) [EINV](#) [DJ](#)

SUBJECT: THE IMPACTS OF AFRICAN RIFT VALLEY GEOTHERMAL  
DEVELOPMENT FACILITY ON THE ENERGY MARKET IN DJIBOUTI.

REF: SECSTATE 347715

CLASSIFIED BY: Tim Smith, Charge' AE Djibouti, Reason  
1.5 (B)

1. (U) SUMMARY: The involvement of the African Rift  
Geothermal Development Facility (ARGeo) has the potential  
to bring an end to the stalemate in the negotiations  
between the Government of Djibouti (GODJ) and the private  
American company Geothermal Development Associates (GDA).  
The proposed GDA project at Lake Assal has been in the  
negotiation phase since 1999.

POST'S RESPONSE TO QUESTIONS IN SECSTATE 347715  
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2. (U) A. International aid for geothermal infrastructure  
development in the region is a priority need. Geothermal  
development, which is extremely capital intensive, is not  
possible without international aid because the Rift Valley  
countries are among the poorest in the world. This  
assistance to the region would promote coordination,  
stability and collaboration between the countries in  
the region.

3. (C) B. There are no overt barriers which would affect  
the development of geothermal energy. Djibouti's purported  
advantages for potential investors, including an open trade  
policy, a stable currency, substantial tax breaks, and  
other incentives are less substantial than they may first  
appear. In practice, the attractiveness of Djibouti for  
foreign investors is greatly marred by the necessity for  
under the table dealings, the fact that virtually all  
economic activity is controlled by government owned  
monopolies, and frequent problems with a corrupt judiciary.  
However, because the high cost of energy exacerbates the  
poverty in Djibouti, there is strong political will to  
develop a cheaper source of energy, including geothermal  
reserves.

4. (U) C. The Ministry of Energy, which has overall  
responsibility for geothermal development projects, has  
repeatedly requested USG technical assistance. USAID  
technical assistance that clearly identified the potential  
geothermal resources available in Djibouti might assist  
post in supporting its MPP goal of economic development.  
Energy costs are one of the greatest barriers to foreign  
direct investment in Djibouti. To date, there have been  
only partially funded feasibility studies done by the  
United States Trade and Development Agency (USTDA).  
U.S. Embassy Djibouti does not have any existing resources  
earmarked for geothermal projects.

GOVERNMENT OF DJIBOUTI PERSPECTIVES  
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5. (U) In order to more clearly explain the situation  
surrounding the negotiations on the proposed GDA geothermal  
project, below are summaries of the views expressed in  
recent meetings with key government officials involved in  
the project. These meetings were an effort to gather  
information and brief the new Political/Economic Officer  
on the history and current position of the geothermal  
project in Djibouti.

6. (SBU) MEETING WITH HOUSSEIN RAYELEH, MINISTRY OF  
ENVIRONMENT: TUESDAY, JANUARY 13, 2004.  
Discussed the local dynamics of the geothermal project with  
GDA and the ARGeo conference. Rayeleh said that the  
Ministry of Environment was doing the planning for the  
ARGeo meetings at the beginning of March because the  
Ministry of Energy did not have the manpower. Rayeleh  
mentioned that the sentiment in the government was  
favorable to geothermal possibilities, but that there were  
certain officials (namely the director of Electricite de  
Djibouti-EDD, the government run electricity monopoly)  
who were stalling the project because they want to keep  
control of the power and keep the prices high.

7. (SBU) MEETING WITH SECRETAIRE GENERALE ABDI FARAH CHIDEH  
AT MINISTRY OF ENERGY: WEDNESDAY, JANUARY 14, 2004.  
Discussed the GDA project and why it had stalled. Chideh's

opinion was that there were several problems with the project and that GDA was poorly organized. First, the resources had not been confirmed and there was more research needed. Second, the fact that GDA wanted a signed agreement for the exploration and exploitation without proper confirmation of the resources was unreasonable. Third, that to request a Purchase Power Agreement (PPA) without confirmation of resources, how could GDA know how much it would cost for the production per kW. Fourth, that GDA needs to explain more clearly how they will finance the project. Chideh mentioned that GODJ did not have full faith that GDA could complete the project because it does not have the resources to finance the project itself. In response to the statement, that once the agreements were signed GDA would be able to raise the capital necessary, Chideh said that all the Ministry asked was that GDA followed the proper "internationally recognized methods" for conducting a project. Chideh did not elaborate what he meant by this.

18. (SBU) MEETING WITH DIRECTOR GENERAL DJAMA ABDI GUELLEH AT ELECTRICITE DE DJIBOUTI (EDD): THURSDAY, JANUARY 15, 2004. Guelleh, an engineer by trade, detailed the technical problems that have been found in the exploration process and why GODJ wanted to do more research on the resources. The majority of the discussion was centered around the price that GDA wants in the PPA (\$0.12 per kW). He brought up the point that GDA sells electricity to power companies in Nevada at five cents and those power companies in turn sell it at seven cents per kW. He said that 12 cents was too high. He pointed out that the diesel fuel purchased for EDD's electricity production was nine cents per kW. He calculated this figure by saying at the commercial price of 28 cents per kW, the cost of diesel, including the 33 percent tax rate on all purchased materials, made up 40 percent of the total price. He said that if GDA agreed to sell the electricity to EDD at seven cents, he would sign tomorrow. Guelleh seemed to doubt that GDA had completed enough research to start production and stated that only five million dollars would be needed for the government to explore the resources sufficiently. Guelleh also expressed concern over GDA asking the GODJ to sign a guarantee for the project and that if GDA failed, Djibouti would have to pay. Econ/Commercial Assistant, Abdi Mahamoud Abdi, said that this was apparently an issue last year and had been resolved because funding had been found from other sources. To this, Guelleh responded that if that was the case and GDA would agree to seven cents, the project should go ahead.

19. (SBU) MEETING WITH DIRECTOR GENERAL DR. JALLUDIN MOHAMED AT CENTRE D'ETUDES ET DE RECHERCHES DE DJIBOUTI (CERD): WEDNESDAY, JANUARY 21, 2004. Dr. Mohamed detailed the research and exploration process of geothermal energy in Djibouti since before the country's independence. Included in his history of the exploration were the reasons each project attempt had been abandoned. The most common reason given was lack of funding or interest from international investors. He said that the deeper reserve at Lake Assal, which has the best energy potential, was abandoned because the water had such a high salt content that scaling and corrosion were an obstacle that could not be overcome due to the sheer cost of the potential solution. Dr. Mohamed explained that the second reserve at Lake Assal has not been tested for how much potential energy it could produce, but that the problem of scaling and corrosion would not be a factor. In answer to the question of why there were such differing answers as to the reason the project had stalled from the other key players in the geothermal project, Dr. Mohamed replied that his opinion was that it was not a matter of ulterior motives, but more a matter of confusion. Dr. Mohamed explained that Djibouti has not had any experience with private investment negotiations and that much confusion has been caused by a lack of knowledge of the process. His opinion was that the negotiations needed to be brought to the table for a fresh start and that with the aid of the ARGeo project expertise, the different concerns would be easily alleviated.

COMMENT

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110. (SBU) Post feels that the information gathered in the above meetings does not fully explain the stalemate in the geothermal project. Background information on the Secretary General of the Ministry of Energy and the

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Director of EDD lead post to believe that their intentions are not devoid of self-interest and the reasons for the delays may go beyond the concerns they expressed. EDD's Djama Guelleh received \$2 million in emergency Economic Support Funds (ESF) to pay back oil fees in April of 2003. Guelleh is the cousin of the President of Djibouti, speaks impeccable English, and due to his influence is probably the center of both the problem and resolution.

111. (SBU) Post lacks the necessary technical expertise to

evaluate figures given us by the various government officials. Post is also lacking the GDA point of view and their expertise in the geothermal field. In order to find the truth of the matter, the two halves of the story are needed. The outside influence and expertise provided by ARGeo may be the best hope for forward movement on this project, as it may clearly delineate the obstacles in place. END COMMENT.  
SMITH